FINANCIAL INSTITUTIONS COMMISSION

ANNUAL REPORT 2005|2006

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Financial Institutions Commission

SUPERINTENDENT OF FINANCIAL INSTITUTIONS

SUPERINTENDENT OF PENSIONS

SUPERINTENDENT OF REAL ESTATE

REGISTRAR OF MORTGAGE BROKERS

CREDIT UNION DEPOSIT INSURANCE CORPORATION (CUDIC)

BRITISH COLUMBIA
The Best Place on Earth

2006

National Library of Canada Cataloguing in Publication Data
British Columbia. Financial Institutions Commission.
Annual report—1991/92—

Annual.
Merger of: British Columbia. Dept. of Insurance. Annual report of the Superintendent of Insurance. ISSN 0704-8540 and Credit Union Deposit Insurance Corporation of British Columbia. Annual report.
Also available on the Internet.
ISSN 0704-8580 = Annual report—British Columbia. Financial Institutions Commission.

1. British Columbia. Financial Institutions Commission—Periodicals. 2. Credit Union Deposit Insurance Corporation of British Columbia—Periodicals. 3. Financial Institutions—British Columbia—Periodicals. 4. Insurance—British Columbia—Periodicals. 5. Pensions—British Columbia—Periodicals. I. Title.

HG2709.C3B74 354.7110082'505 C92-092277-5

2007-01490/

Contents

Introduction 1

FICOM's Vision, Mission, and Values 2

FICOM's Commissioners and Executive Management 3

Quick Facts 4

Report of the Commission Chair 5

Report of the Superintendent and CEO 6

FICOM's Structure, Role, and Responsibilities 7

Statutes Administered by FICOM 8

FICOM's Core Business Areas and Organization 9

FICOM's Support Functions 11

FICOM's Organizational Chart 12

Service Plan Report 13

Regulation of Credit Unions and Trusts 14

Regulation of Insurers 19

Regulation of Pension Plans 23

Regulation of Mortgage Brokers 28

Regulation of Real Estate 31

Investigations 34

Administration 36

FICOM's Financial Report 37

Report on the Credit Union Deposit Insurance Corporation 39

Notes 43

Auditor's Report on the Credit Union Deposit Insurance Corporation 45

Contact Information 57

Introduction

The Financial Institutions Commission's (FICOM) annual report is published to provide citizens, stakeholders, and researchers with information about both the regulation of financial services in British Columbia and the effectiveness of FICOM as a financial services regulator.

Under the *Budget Transparency and Accountability Act*, the Government of British Columbia's Treasury Board sets guidelines for service plans and annual reports prepared and published by government organizations.

All service plans must present organizational goals and identify performance measures for tracking the achievement of these goals. They are published in tandem with the BC government's budget—which is ordinarily introduced to the legislature in February—in advance of the corresponding fiscal year.

Annual reports subsequently address the organization's performance in reaching service plan identified goals and must be published by August 31 following the fiscal year.

This schedule causes an overlap in service plans and annual reports. When annual reports are released, they correspond to the service plan that was published approximately 18 months prior, and not to the service plan that was published immediately prior.

This annual report covers FICOM's activities in its 2005/06 fiscal year: the period April 1, 2005 through March 31, 2006.

FICOM's Vision, Mission, and Values

VISION

To be the most progressive and cost-effective regulator in Canada of financial services, pensions, and real estate services, protecting the public interest, keeping pace with industry change and leading effective regulatory reform.

MISSION

To maintain confidence in British Columbia's financial services sector by effective regulation.

VALUES

Our actions are guided by the following values:

EFFECTIVENESS. We focus on obtaining results, even when they are difficult to measure, rather than on activities. We anticipate problems before they arise and address them in a timely manner.

INTEGRITY. We value honesty, cooperation, transparency, reliability, fairness, and respect within the workplace and demonstrate these qualities in the exercise of our regulatory function.

PROFESSIONALISM. We take pride in the quality of our work and continually strive to improve ourselves by seeking knowledge, revising our methods and providing innovative solutions.

ACCOUNTABILITY. We are accountable for the decisions we make.

FICOM Commissioners

Chair	J. Stewart Cunningham
Commissioners	Tamara Vrooman (*ex officio*)
	John Dawson
	Vickie McDonnell
	Janet Pau

FICOM Executive Management*

Superintendent and Chief Executive Officer (CEO)	W. Alan Clark
Deputy Superintendent, Credit Unions, Trusts & Real Estate and Deputy Registrar, Mortgage Brokers	L. Jay Mitchell
Deputy Superintendent, Insurance and Pensions	C. Michael Grist
Executive Director, Operational Services	John Nunez
Executive Director, Pensions	Michael J. Peters
Executive Director, Investigative Services	Kenneth J. Fraser
Executive Director, Administrative Services	Nick Miller

** All positions effective as of March 31, 2006*

Quick Facts

AS OF MARCH 31, 2006, there were 52 credit unions, 7 provincial trust companies, and 46 extra-provincial trust companies in British Columbia. The total assets of BC's credit union system were $35.8 billion, and the total assets under administration by provincial and extra-provincial trust companies were $151 billion.

THE INSURANCE MARKET in British Columbia is the third largest in Canada. On March, 31, 2006, a total of 259 insurers were authorized to operate in British Columbia by FICOM. Annual insurance premiums in British Columbia exceeded $5.72 billion last year, exclusive of automobile insurance.

THE NUMBER OF MORTGAGE BROKERS in British Columbia has been increasing significantly. In the past two years, the number of registered mortgage brokers was up 6.3% and 8.1% respectively. Sub broker registrations were up a dramatic 18.7% and 15.6% over the same periods.

THE ASSETS held by provincially regulated pension plans grew to $74.3 billion during the last fiscal year. These pension plans covered more than 800,000 members and pensioners.

AS OF MARCH 31, 2006, British Columbia had 543 mortgage broker companies and 799 mortgage broker company branch offices, and 2,366 sub mortgage brokers were registered to do business in British Columbia.

THE OFFICE OF THE SUPERINTENDENT of Real Estate responds to information requests from both the public and industry. In the past year, it processed more than 21,800 such queries regarding real estate and mortgage brokers.

DURING 2005/06, FICOM had 15 full-time staff dedicated to investigative functions. FICOM investigates major statutory breaches of all statutes administered by FICOM, such as unlicensed activity, as well as related criminal matters.

THE NUMBER OF DISCLOSURE STATEMENTS received by the office of the Superintendent of Real Estate last year was 741—an increase of 196% in four years.

Report of the Commission Chair

June 21, 2006

The last year has seen exceptional growth in the British Columbia economy and in the financial services sector in the province. This growth has benefited the citizens of this province, but has posed challenges to the Commission. The Credit Union Deposit Insurance Corporation (CUDIC) and the Financial Institutions Commission have taken a number of steps to deal with these challenges.

Deposits in the credit union system have grown significantly in the last several years. CUDIC has moved to ensure it has adequate funds to insure these deposits. In December, 2005, the credit union deposit insurance fund was increased by $83 million, resulting in a substantial increase in resources available to CUDIC.

Along with the increase in the fund's size, CUDIC has ensured that the deposit insurance fund is managed as efficiently as possible. The organization has made changes in investment policies, auditors, investment managers, and consultants to derive as much benefit as possible from its funds.

Throughout the year, the Commission has dealt with a number of significant regulatory issues affecting financial institutions. As the regulator, we remain vigilant to ensure that financial institutions operate in a careful and prudent manner. Accordingly, it was necessary for the Commission to place one credit union under supervision during the year, and three others remain under supervision. The Financial Institutions Commission also authorized seven new extra-provincial insurers to conduct business in the province. The Commission works closely with staff and with other parties to ensure the operations of credit unions, trusts, and insurers do not pose a threat to the confidence the public has in the financial services sector.

Since 2004, the Commission has delegated to the Superintendent many of the day-to-day decisions that are required under the *Financial Institutions Act*. The Superintendent reports periodically to Commission members on his exercise of these delegated powers.

I would like to take this opportunity to thank my fellow Commissioners for the many hours they have spent making what can sometimes be difficult decisions. I would also like to thank the Superintendent and staff of the Financial Institutions Commission for all their efforts and dedication in the last year.

J. Stewart Cunningham
Chair, Financial Institutions Commission

Report of the Superintendent and CEO

June 21, 2006

Last year, the first in our new location in Surrey, the financial services industry continued to grow and change at a rapid pace. For example, the credit union system experienced strong growth, while at the same time consolidation remained an ongoing trend. This consolidation has lead to bigger and more complex financial institutions. The real estate market maintained its boom, which translated to a record number of filings under the *Real Estate Development Marketing Act*. The number of mortgage broker registrants continued to increase, and pension plans remained a concern in the western world.

This growth and complexity presents many challenges for our organization. We have tried to meet these challenges by

- Focusing our resources on areas of high risk;
- Upgrading our information technology to better track risk;
- Conducting on-site examinations of mortgage broker offices and pension plan administrators;
- Working with the Sauder School of Business at the University of British Columbia to develop a new educational program for potential mortgage broker registrants; and
- Reviewing internal procedures and organizational structure to ensure we can handle the increase in work volumes with minimal turnaround times.

In the last year also, this organization had to take regulatory action in a number of areas, such as unauthorized deposit taking and unauthorized insurance activity as well as a number of high-profile mortgage broker issues. In addition, we participated with our fellow regulators in a number of projects—all designed to reduce regulatory burden.

Going forward, we will have to face many of the same challenges, but also we will need to overcome new and different obstacles.

I am proud of the accomplishments of this organization. They are a direct reflection of the dedication, work ethic, and expertise that are abundant in FICOM's staff. I wish to thank all staff for their efforts during the past year.

W. Alan Clark
Chief Executive Officer
Financial Institutions Commission

FICOM's Structure, Role, and Responsibilities

The Financial Institutions Commission (FICOM) is an agency of the provincial government that administers 10 statutes. These statutes regulate aspects of the pension, financial services, and real estate sectors in the province. The statutes are listed on page 8.

FICOM has a complement of approximately 90 staff hired under the *Public Service Act* and is headed by a CEO. At the present time, the CEO is concurrently appointed as Superintendent of Financial Institutions, Superintendent of Pensions, Superintendent of Real Estate, Registrar of Mortgage Brokers, and head of the Credit Union Deposit Insurance Corporation (CUDIC) under corresponding legislation. The term "FICOM," as used in this annual report, refers not only to the Commissioners and the Superintendent of Financial Institutions, but also to the rest of the organization and its staff.

According to the *Financial Institutions Act*, the Lieutenant-Governor-in-Council can appoint up to 11 FICOM Commissioners on the recommendation of the Minister of Finance. The Commissioners have defined roles under the *Financial Institutions Act* and the *Credit Union Incorporation Act*. These include

- Major regulatory decisions related to incorporations, business authorizations, amalgamations, liquidations, and windups; and
- Decisions on credit union stabilization, supervision, and deposit insurance.

Commissioners have no legislative responsibilities with respect to the other statutes administered by FICOM. Some responsibilities under the *Financial Institutions Act* and the *Credit Union Incorporation Act* are assigned directly to the Superintendent of Financial Institutions or are delegated to him by the Commissioners.

Commissioners also serve as directors of CUDIC unless otherwise directed by the Minister of Finance.

Names and addresses of all financial institutions authorized by the provincial government to conduct business in British Columbia are listed on www.fic.gov.bc.ca.

Statutes Administered by FICOM

FICOM ADMINISTERS 10 STATUTES

THE CREDIT UNION INCORPORATION ACT provides a corporate governance framework for credit unions consistent with their co-operative characteristics.

THE FINANCIAL INSTITUTIONS ACT provides a regulatory framework to govern all provincially regulated financial institutions, including trust companies, insurance companies, and credit unions. It also provides the licensing and regulatory framework for insurance agents, sale§persons, and adjusters under the supervision of the Insurance Council of British Columbia. This statute further provides for a credit union deposit insurance fund.

THE INSURANCE ACT provides certain statutory requirements for insurance contracts.

THE INSURANCE (CAPTIVE COMPANY) ACT establishes British Columbia as a domicile for captive insurance companies and provides them with a registration and regulatory framework.

THE INSURANCE (MARINE) ACT provides certain statutory requirements for contracts of marine insurance.

THE MORTGAGE BROKERS ACT provides a registration and regulatory framework for mortgage brokers.

THE PENSION BENEFITS STANDARDS ACT provides a supervisory framework and minimum standards for provincial pension plans in British Columbia.

THE REAL ESTATE DEVELOPMENT MARKETING ACT provides a regulatory framework for the marketing of certain real estate developments.

THE REAL ESTATE SERVICES ACT provides a framework for the licensing and market conduct regulation of real estate professionals. Under this statute, the Real Estate Council of British Columbia regulates real estate brokerages, real estate representatives, property managers, and, effective January 2006, strata managers.

THE STRATA PROPERTY ACT provides a framework for the development, governance, and management of strata corporations.

FICOM's Core Business Areas and Organization

FICOM's five core business areas are organized around its regulatory responsibilities.

CREDIT UNIONS AND TRUSTS

This department regulates credit unions and trust services under the *Financial Institutions Act* and the *Credit Union Incorporation Act*.

REAL ESTATE

This department administers the disclosure requirements of the *Real Estate Development Marketing Act* for multi-unit real estate developments.

It approves some strata plan schedules under the *Strata Property Act*.

Under the *Real Estate Services Act*, the Real Estate Council of British Columbia is a self-regulatory organization (SRO) that regulates real estate brokerages and representatives, and property managers. Effective January 2006, strata managers were also regulated by the Real Estate Council.

The Superintendent of Real Estate has powers to intervene in the regulation of real estate professionals if an urgent concern for the public interest arises and is responsible for investigating unlicensed real estate activity.

The Superintendent may appeal disciplinary decisions of the Real Estate Council.

MORTGAGE BROKERS

This department registers mortgage brokers under the *Mortgage Brokers Act* and enforces professional standards on the industry.

FICOM's Core Business Areas and Organization (cont'd)

INSURANCE

This department is responsible for the regulation of insurers under the *Financial Institutions Act*, the *Insurance Act*, the *Insurance (Captive Company) Act*, and the *Insurance (Marine) Act*.

The Insurance Council of BC is responsible for licensing insurance sales agents and adjusters. However, FICOM is responsible for investigating unlicensed insurance activity.

The Superintendent may appeal disciplinary decisions of the Insurance Council.

PENSIONS

This department regulates pension plans registered in British Columbia under the *Pension Benefits Standards Act*.

FICOM's Support Functions

INVESTIGATIONS

This department examines significant statutory breaches of all statutes administered by FICOM. It also investigates related criminal issues, such as fraud, that may be uncovered in the course of its inquiries.

ADMINISTRATION

Our five core business areas are supported by the following departments: Records, Systems, Accounting, Operational Services, and the CEO's office. They provide a wide variety of services, including records management, reception, communications, systems support, accounting, budgeting, purchasing, freedom of information requests, policy research, legislative reviews, performance planning and reporting, strategic human resources management, and secretarial support.

CREDIT UNION DEPOSIT INSURANCE CORPORATION

Administers deposit insurance for credit unions through the Credit Union Deposit Insurance Corporation.

FICOM's Organizational Chart

Service Plan Report

FICOM identified seven organizational goals in its service plan for fiscal 2005/06:

- **BRITISH COLUMBIANS**
- **BRITISH COLUMBIANS**
- **BRITISH COLUMBIANS**
- **BRITISH COLUMBIANS**
- **BRITISH COLUMBIANS**
- **THE INVESTIGATIVE ACTIVITIES**
- **FICOM**

GOAL #1

British Columbians have confidence in credit unions and trusts because they are effectively regulated.

The Financial Institutions Commission maintains the public's confidence in credit unions and trusts by ensuring these institutions operate in a safe and prudent manner. The Commission's regulatory framework requires British Columbia credit unions and trusts to identify the risks they face and to manage these risks appropriately. The Financial Institutions Commission takes regulatory action when the risks undertaken by those institutions are no longer being managed in a safe and prudent manner.

FICOM also ensures that credit unions and trusts comply with the rules in the *Financial Institutions Act* for the marketing of financial products. There is an information imbalance between financial institutions and consumers, and the Financial Institutions Commission and its staff enforce laws that help protect consumers. The Commission also protects consumers by requiring that financial services in this province are provided by duly authorized entities.

Finally, the Financial Institutions Commission is aware that the marketplace for financial services is highly competitive. It attempts to reduce regulatory burden whenever possible.

As of March 31, 2006, FICOM regulated 52 credit unions, 7 provincial trust companies, and 46 extra-provincial trust companies. Total assets of BC's credit union system at the end of 2005 were $35.8 billion. Total assets under administration by provincial and extra-provincial trust companies at that time were $151 billion.

The Financial Institutions Commission had to take enforcement action in the past year to maintain public confidence in credit unions and trusts. In early 2005, the Commissioners placed a credit union under voluntary supervision, because two of its directors placed themselves in a conflict of interest.

The Commissioners also refused to release another credit union from supervision, citing ongoing concerns with corporate governance. This decision was confirmed after a lengthy hearing that took place over a number of weeks.

It was also necessary for the Superintendent of Financial Institutions to take action against a senior officer of another credit union. This senior officer eventually signed an undertaking agreeing not to act as an officer or director of a credit union.

The past fiscal year also saw the Superintendent of Financial Institutions take steps to protect consumers by preventing unauthorized activity. The Superintendent issued three cease-and-desist orders that prevented unauthorized entities from engaging in deposit taking and another cease-and-desist order relating to unauthorized trust activity. The Superintendent of Financial Institutions also entered into an undertaking agreement with another company that prevented the company from continuing to engage in unauthorized deposit taking.

The Financial Institutions Commission staff purchased new software to more efficiently operate the risk-based regulatory framework. They also began staff training on previously purchased software and on other aspects of the risk-based framework.

As part of FICOM's regulatory streamlining in trust regulation and with more recent changes to the Capital Requirement Regulation (CRR), Commission staff created a new financial quarterly return. All extra-provincial trust companies may use it. Staff also devised a new quarterly financial and capital return for provincial trust companies in November 2005.

In addition, in February 2006, FICOM staff revised and distributed to credit unions the *Completion Guide for Credit Union Capital Adequacy Return*, which was used for the completion of the audited year-end December return.

Staff of the Financial Institutions Commission reviewed and addressed emerging policy issues. As in past years, they continued to work with the Financial and Corporate Sector Policy Branch on legislative amendments. Commission staff collaborated with Victoria to update references to the *Company Act* provisions in the *Financial Institutions Act*. Hence, the Act now refers to the new *Business Corporations Act* when dealing with extra-provincial financial institutions. Although this was not a substantial change, it did remove a significant source of confusion about the legislation.

COST OF CREDIT UNION REGULATION AND DEPOSIT INSURANCE

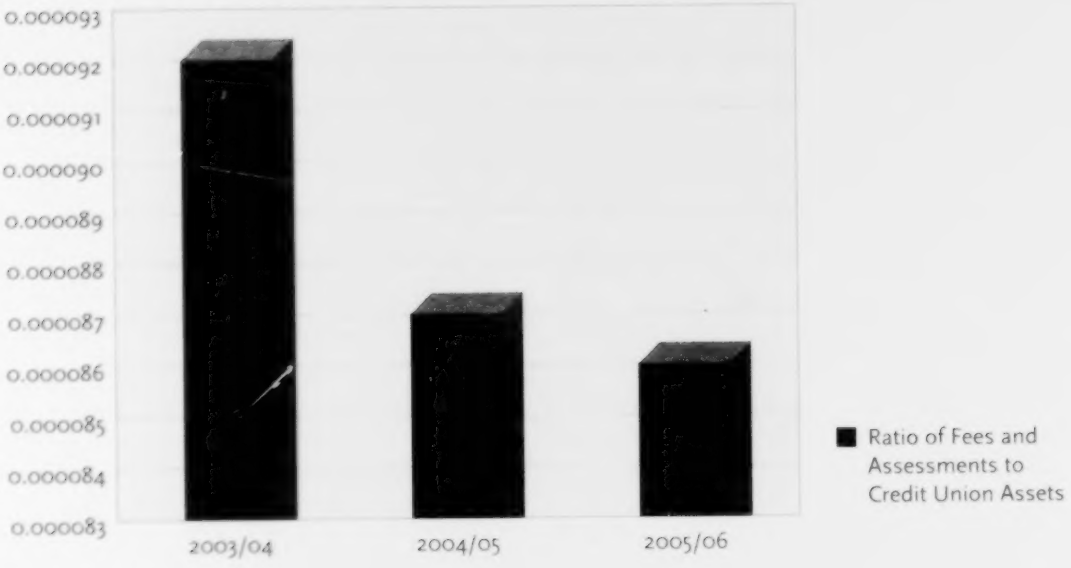
FICOM tracks the cost of credit union regulation by comparing its credit union fees and CUDIC's deposit insurance assessments to the total assets of BC credit unions. FICOM administers deposit insurance for credit unions through the Credit Union Deposit Insurance Corporation.

COST OF CREDIT UNION REGULATION AND DEPOSIT INSURANCE

Credit Union Regulation and Deposit Insurance	2003/04	2004/05	2005/06
Total FICOM Credit Union Fees Budget	$2.664 million	$2.8 million	$3.082 million
Total CUDIC Assessments	$Nil	$Nil	$Nil*
Total Credit Union Assets	$29 billion	$32.3 billion	$36 billion

** Does not include a one-time assessment of $83 million to increase the deposit insurance fund.*

RATIO OF FICOM CREDIT UNION FEES AND ASSESSMENTS TO TOTAL CREDIT UNION ASSETS



This graph shows the amount of credit union fees FICOM expected to collect in past fiscal years divided by the value of credit union assets in British Columbia.

REGULATION OF CREDIT UNIONS AND TRUSTS

FICOM monitors its many regulatory activities. The statistics below are listed effective March 31, the last day of the BC government's fiscal year, unless otherwise noted.

AUTHORIZED FINANCIAL INSTITUTIONS IN BC

Authorized Financial Institutions in BC	2003/04	2004/05	2005/06
Credit Unions	61	54	52
Central Credit Unions	2	2	2
Credit Union System Total Assets	$29.3 billion	$31.6 billion	$35.8 billion
BC Incorporated Trust Companies	5	5	7
Extra-Provincial Trust Companies	45	44	46
Trust Company Total Deposits in BC	$8.1 billion	$6.4 billion	$6.1 billion
Trust Company Total Assets Under Administration in BC	$103.9 billion	$131.8 billion	$151 billion

REGULATORY ACTIVITIES

Regulatory Activities	2003/04	2004/05	2005/06
Business Authorization Applications for Trust Companies—Approved	1	2	5
Amalgamations of Extra-Provincial Trust Companies	1	2	2
Credit Unions Merged	2	7	2
Credit Unions Under Supervision	4	4	4

FICOM REGULATED CREDIT UNIONS AND TRUSTS

Credit unions with business authorizations for British Columbia effective March 31, 2006 included the following:

CREDIT UNIONS

Aldergrove Credit Union
Arrow Credit Union
Bulkley Valley Credit Union
Castlegar Savings Credit Union
CCEC Credit Union
Coast Capital Savings Credit Union
Coastal Community Credit Union
Columbia Valley Credit Union
Community Savings Credit Union
Compensation Employees Credit Union
Creston & District Credit Union
Cumberland & District Credit Union
East Kootenay Community Credit Union
Enderby & District Credit Union
Envision Credit Union
Grand Forks District Savings Credit Union
Greater Vancouver Community Credit Union
Greater Victoria Savings Credit Union
Gulf and Fraser Fisherman's Credit Union
Integris Credit Union
Interior Savings Credit Union
Island Savings Credit Union
Khalsa Credit Union
Kootenay Savings Credit Union
Ladysmith & District Credit Union
Lake View Credit Union
Mount Lehman Credit Union
Nelson & District Credit Union
North Peace Savings and Credit Union
North Shore Credit Union
Northern Savings Credit Union
Operating Engineers Credit Union
Osoyoos Credit Union
Powell River Credit Union
Prospera Credit Union
Quadra Credit Union
Revelstoke Credit Union
Salmon Arm Savings & Credit Union
Sharons Credit Union
Spruce Credit Union
Summerland & District Credit Union
Sunshine Coast Credit Union
Terrace & District Credit Union
Union Bay Credit Union
VP Credit Union
Valley First Credit Union
Van Tel/Safeway Credit Union
Vancouver City Savings Credit Union
Vancouver Firefighters Credit Union
Vernon & District Credit Union
Westminster Savings Credit Union
Williams Lake and District Credit Union

CENTRAL CREDIT UNIONS

Credit Union Central of British Columbia
Stabilization Central Credit Union of British Columbia

PROVINCIALLY INCORPORATED TRUST COMPANIES WITH BUSINESS AUTHORIZATIONS EFFECTIVE MARCH 31, 2006

All Nations Trust Company
Asian Trust Company Inc.
Community Western Trust Corporation
Pacific Corporate Trust Company
Solus Trust Company Limited
Staffordshire Trust Company
Western Pacific Trust Company

AS OF MARCH 31, 2006, THERE WERE 46 EXTRA-PROVINCIAL TRUST COMPANIES WITH BUSINESS AUTHORIZATIONS FOR BRITISH COLUMBIA.

GOAL #2

British Columbians have confidence in insurers because they are effectively regulated.

The Financial Institutions Commission regulates private-sector insurers operating in British Columbia. It does this by

- Maintaining a timely and efficient licensing authorization system for insurers;
- Regulating market conduct activity;
- Regulating the solvency of insurers who are incorporated in the province; and
- Undertaking enforcement action against those who are not properly authorized to carry on insurance business in BC, or otherwise contravene the Insurance Act.

FICOM staff also attempt to work with other jurisdictions to harmonize and streamline regulatory requirements. This improves operational efficiency and reduces regulatory cost.

As of March 31, 2006, the Commission regulated a total of 259 insurers. Total insurance premiums written in BC last year, exclusive of the Insurance Corporation of British Columbia, were $5.72 billion, making British Columbia the third largest insurance market in Canada.

During the year, Commission staff performed five on-site inspections of insurers, followed up on insurance complaints and dealt with many regulatory compliance issues. At the same time, staff processed seven applications for business authorizations, six revocations, and one application for amalgamation.

Major projects carried out by the department included

- The continuing development of the risk-based framework for regulating the solvency of BC insurers, which was implemented over the past three years;
- Expansion of the Commission's electronic filing of insurance companies' and agents' annual returns;
- Participation in various projects including the review of British Columbia's insurance Act, in collaboration with the Financial Institutions Policy Branch of the Ministry of Finance;
- A review of regulatory policy relating to engineering services to keep pace with recent changes in legislation. These changes will be implemented in early 2006; and
- Initiation of a project to develop policy for the regulation of insurers and development of a new system for filing financial returns.

During the year, the Deputy Superintendent of Insurance and Pensions was also elected to chair the Canadian Council of Insurance Regulators (CCIR) for a two-year term. During this time, CCIR continued to work on a number of initiatives aimed at improving the Canadian regulatory system for insurance. Some of these included

- A review of insurance industry compensation practices and the relationship between insurers and their intermediaries;
- Development of reciprocal licensing practices for insurance agents; and
- Work on implementing a risk-based approach to market conduct regulation.

Further detail on these and other CCIR initiatives can be seen at www.ccir-ccrra.org.

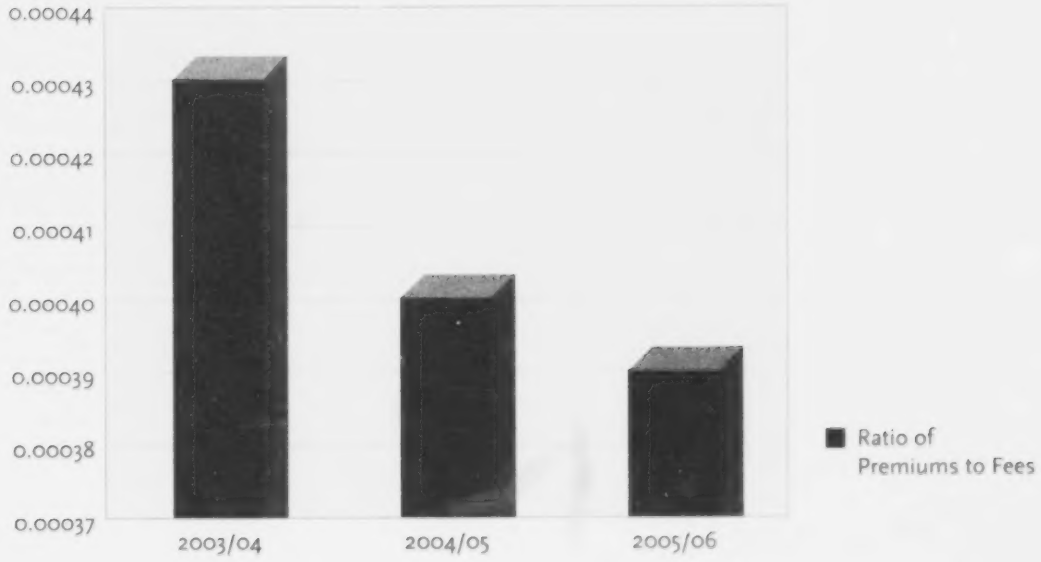
COST OF INSURANCE REGULATION

FICOM tracks the cost of insurance regulation by comparing its insurance fees to the total premiums written in the province of British Columbia. The calculation of this performance measure is shown below.

COST OF INSURANCE REGULATION

Fees and Premiums	2003/04	2004/05	2005/06
Insurance Fees—Annual Budget	$2.127 million	$2.116 million	$2.224 million
Total Premiums in BC	$5 billion	$5.3 billion	$5.7 billion

RATIO OF INSURANCE FEES—ANNUAL BUDGET TO TOTAL PREMIUMS IN BC



This graph shows the amount of insurance fees FICOM expected to collect in past fiscal years divided by the amount of insurance premiums written in British Columbia.

OPERATIONAL STATISTICS

REGULATION OF INSURERS

Authorized Insurers in British Columbia	2003/04	2004/05	2005/06
BC Incorporated Insurance Companies and Fraternal Insurance Societies	8	8	7
Extra-Provincial Insurance Companies	230	230	231
Reciprocal Insurance Companies	5	5	5
Captive Insurance Companies	12	13	16
Insurance Premiums Written in BC (Excluding ICBC)	$5.0 billion	$5.3 billion	$5.7 billion
Regulatory Activities	**2003/04**	**2004/05**	**2005/06**
Applications for New Business Authorizations —Received	5	10	7
New Business Authorizations of Insurance Companies —Approved	5	10	7
Revocations of Extra-Provincial Insurance Company Authorizations —Approved	8	10	6
Number of Applications for Amalgamations of Extra-Provincial Insurance Companies—Received	4	2	1
Amalgamations of Extra-Provincial Insurance Companies	4	2	1
Number of On-site Inspections Performed	4	5	5
Number of Compliance Issues Handled	144	126	86

FICOM REGULATED INSURERS

FICOM regulates 7 provincial insurance companies, 16 captive insurance companies, and 5 reciprocal exchanges. It also oversees 231 extra-provincial insurance companies.

PROVINCIAL INSURANCE COMPANIES

BCAA Insurance Corporation
British Columbia Life & Casualty Company
The Mutual Fire Insurance Company of British Columbia
Optimum West Insurance Company
Pacific Coast Fishermen's Mutual Marine Insurance Company
PBC Health Benefits Society
Westland Insurance Company Limited

CAPTIVE INSURANCE COMPANIES

Cupp Services Ltd.
LSBC Captive Insurance Company Ltd.
CRNBC Captive Insurance Corporation
Baycrest Captive Insurance Corporation
BCF Captive Insurance Company Ltd.
BCR Captive Insurance Co. Ltd.
Great Pacific Captive Insurance Ltd.
Hyundai Auto Canada Captive Insurance Inc.
PacCorp Financial Inc.
Pengins International Corp.
RCA Indemnity Corporation
Stikine Casualty Company Limited
Torlea Casualty Ltd.
Transportation Property and Casualty Company Inc.
West Fraser Captive Inc.
Westcoast Indemnity Company Limited

RECIPROCAL EXCHANGES

Asset Protection Insurance Exchange
Canadian Universities Reciprocal Insurance Exchange
Community Newspapers Reciprocal Insurance Exchange
Lumbermen's Underwriting Alliance
The Municipal Insurance Association of British Columbia

GOAL #3

British Columbians have confidence in provincially registered pension plans because they are effectively regulated.

The Superintendent regulates pension plans under the *Pension Benefits Standards Act*. This work includes registering pension plans, dealing with various approval requests under the legislation (such as requests for plan amendments), monitoring the funding adequacy and general regulatory compliance of plans, and responding to over 500 public inquiries and complaints per annum.

In addition, Pensions Department staff work with regulators in other jurisdictions, through the Canadian Association of Pension Supervisory Authorities, to deal with cross-jurisdictional issues such as avoidance of unnecessary regulatory burden.

As of March 31, 2006, Pensions Department staff regulated pension plans covering 475,349 active members and 189,785 pensioners. Total plan assets were $74.3 billion.

The Superintendent of Pensions received 17 applications to register new pension plans. The Superintendent accepted 14 of these applications, and three are still under review. Average turnaround time for processing these applications was 90 days.

The Superintendent of Pensions also accepted 234 amendments to pension plans and received 33 requests for consent to other actions that, under the *Pension Benefits Standards Act*, required his approval. These requests ranged from transferring assets between pension plans to reducing the benefits of a negotiated cost-defined benefit pension plan.

The Pensions Department was restructured in 2005/06 as part of its plan to become more risk-based. A new analyst position was created and assigned to supervise defined contribution pension plans. This allows the senior analysts to focus on defined benefit pension plans, which are generally larger and face more complicated risks.

As previously mentioned, a major activity of the department is to ensure pension plans meet statutory funding requirements. As part of this work, Pensions Department staff processed 606 annual information returns and accepted 66 actuarial valuations that dealt with funding issues.

As discussed in last year's service plan, the Pensions Department successfully piloted an on-site examination process in March 2006 and is currently working towards enabling clients to file their pension plan returns electronically. The latter initiative is part of the redesign of the department's information management systems.

Department staff also reviewed plan investment disclosure requirements. Updated information return forms will be released this fiscal year. The new forms will provide more detail about plan investments and cash flows in order to support an analysis of the risks facing pension plans.

In 2005/06, the Superintendent of Pensions was required to intervene on several occasions when pension plans were not administered in accordance with the *Pension Benefits Standards Act*. The Superintendent issued nine directions for compliance for violations such as non-remittance of contributions and improperly refusing to enroll an employee in a plan. In addition, for the first time since the *Pension Benefits Standards Act* came into force, the Superintendent sought an enforcement order to ensure the partial termination of a pension plan was carried out.

Pensions Department staff also collaborated with the Financial and Corporate Sector Policy Branch, Ministry of Finance, on several emerging policy issues such as consultations in Alberta, Quebec, and Ottawa about pension funding problems. They also took an active role with the Canadian Association of Pension Supervisory Authorities regarding the regulation of multi-jurisdictional pension plans.

FICOM-REGULATED PENSION PLANS

PROVINCIAL PENSION PLANS INFORMATION

Provincial Pension Plans Information	2003/04	2004/05	2005/06
Registered Pension Plans	838	819	810
Pension Plan Assets (Market Value) From Most Recent Annual Information Return	$60.2 billion	$66.9 billion	$74.3 billion
Active Plan Members	469, 943	480, 793	475, 749
Pensioners	171, 926	182, 648	189, 785
Members With Deferred Entitlements	119, 555	153, 976	165, 840

REGULATORY ACTIVITIES

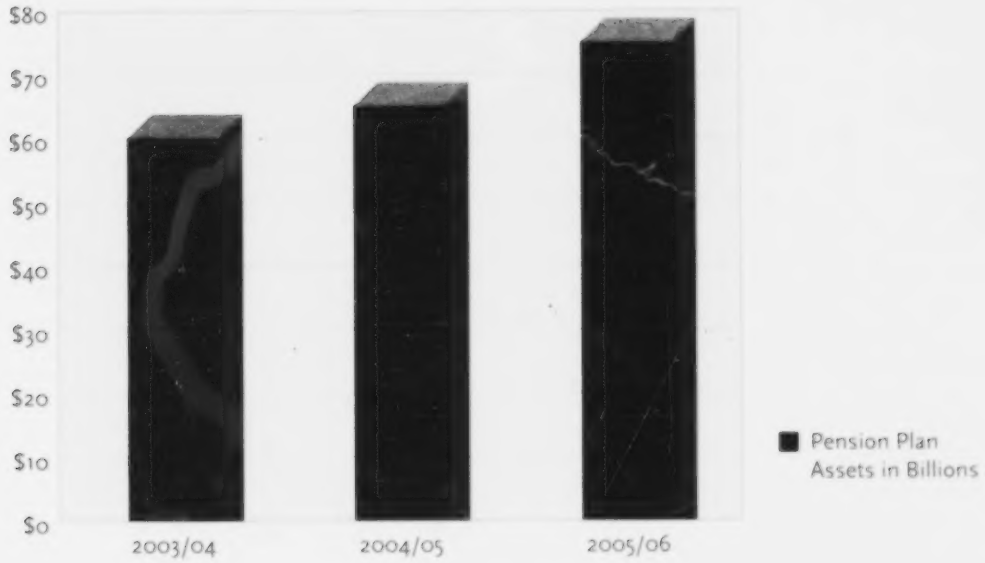
Regulatory Activities	2003/04	2004/05	2005/06
New Plan Registrations	22	30	19
Approved Plan Terminations	26	65	24
Registered Plan Amendments	304	271	234
Registered Savings Plan / Life Income Fund Contracts Reviewed	268	306	128
Completed Assignments	1,706	1,512	1,202

REGULATORY FEES

Regulatory Fees	2003/04	2004/05	2005/06
Average Fees Per Member	$1.54	$1.45	$1.40
Average Fees Per Active Member	$2.49	$2.47	$2.45
Average Fees Per $1,000 of Plan Assets	$0.0194	$0.0200	$0.0157

* *Note: The regulation of provincial pension plans was transfered to FICOM effective April 1, 2003. Assets and membership figures for registered pension plans are reported based on the most recent Annual Information Returns available at the corresponding calendar year-end (e.g., December 31, 2004, data appears for the 2004/05 fiscal year reporting period).*

PENSION PLAN ASSETS



FICOM REGULATED PENSION PLANS

FICOM regulates a total of 810 pension plans with total assets of $74.3 billion, including Defined Benefit Plans and Defined Contribution Plans. The largest plans, in terms of asset size, as at March 31, 2006, were as follows:

LARGEST DEFINED BENEFIT PENSION PLANS

Name of Plan	Amount of Plan
Municipal Pension Plan	$20,533,455,000
Public Service Pension Plan	$14,030,373,000
Teachers' Pension Plan	$13,960,557,000
IWA–Forest Industry Pension Plan	$2,800,709,814
Pulp and Paper Industry Pension Plan	$2,335,992,970
British Columbia Hydro and Power Authority Pension Plan	$2,141,645,000
College Pension Plan	$1,879,318,000
United Food and Commercial Workers Union Pension Plan	$1,236,358,241
University of British Columbia Faculty Pension Plan	$1,106,912,782
Weyerhaeuser Company Ltd. Retirement Plan for Non-Union Employees	$808,255,846
Workers' Compensation Board Superannuation Fund	$723,327,000
University of British Columbia Staff Pension Plan	$700,515,677
Operating Engineers' Pension Plan	$611,227,325
OPEIU 378/Insurance Corporation of British Columbia Pension Plan	$568,168,000
University of Victoria Combination Pension Plan	$566,213,071
The Teck Cominco Metals Ltd. Pension Plan for BC Unionized Employees	$528,218,862
Teamsters Canadian Pension Plan	$454,452,770
Catalyst Paper Corporation Retirement Plan for Salaried Employees	$315,212,603
Insurance Corporation of British Columbia Pension Plan for Management and Confidential Employees	$288,711,000
Retail Wholesale Union Pension Plan	$278,131,769

LARGEST DEFINED CONTRIBUTION PENSION PLANS

Name of Plan	Amount of Plan
BCGEU Pension Plan	$135,555,120
Employees' Pension Plan for Employees of the Archdiocese of Vancouver	$85,551,599
7-Eleven Canada Inc. Pension Plan	$59,142,130
Pension Plan for Employees of Canadian Ford Dealers/Amalgamated Plan	$54,430,729
Registered Pension Plan for Employees of Canadian Conference of The Mennonite Brethren Church of North America	$44,580,997
Pension Plan for Union Employees of Pacific Blue Cross	$41,583,789
MDS Metro Laboratory Services Pension Plan	$39,496,931
SkyTrain Employees' Pension Plan	$38,328,139
Shoreworker Pension Plan, Administered by the United Fishermen and Allied Workers' Union	$31,938,855
University of Northern British Columbia Pension Plan	$30,528,014
Retirement Plan for the Employees of BC Biomedical Laboratories Ltd.	$29,400,954
Ambulance Paramedics of British Columbia CUPE Local 873 Supplemental Pension Plan	$28,452,224
Registered Pension Plan for Employees of Riverside Forest Products (Williams Lake) Limited	$26,614,394
Inland Industries Ltd. Pension Plan	$26,445,501
Canadian Forest Products Ltd. Defined Contribution Pension Plan	$22,829,998
Pension Plan for Greenhills Employees of Elk Valley Coal Corporation	$21,965,090
BC Fruit Industry Pension Plan	$21,774,360
Cope Local 15 Pension Plan	$20,937,875
Pension Plan for the Hourly Employees of S&R Sawmills Ltd.	$18,997,127

GOAL #4

British Columbians have confidence that mortgage brokers are regulated effectively.

As the regulator of provincial mortgage brokers in British Columbia, the office of the Registrar of Mortgage Brokers has broad responsibilities. It must maintain an efficient system for registering mortgage brokers, and it regulates their activity by enforcing compliance with the *Mortgage Brokers Act*. This office also investigates persons accused of operating as unregistered mortgage brokers.

Mortgage brokers, in turn, are registered to arrange, buy, sell, administer and fund mortgages on real estate. They are also authorized to broker residential and commercial mortgages to financial institutions, institutional investors, and private lenders.

The number of mortgage brokers has increased dramatically in recent years. As of March 31, 2006, some 543 mortgage broker companies, 799 mortgage broker company branch offices, and 2,366 sub mortgage brokers were registered to conduct business in British Columbia.

The office of the Registrar of Mortgage Brokers also responds to information requests from both the public and industry. In the past year, it processed more than 21,600 such queries regarding real estate and mortgage brokers.

In the last fiscal year, the office of the Registrar of Mortgage Brokers began accepting credit cards for the payment of fees. This option was introduced for the convenience of registrants under the Act.

The Registrar of Mortgage Brokers addressed the February 2005 service plan in several ways. Early in 2006, an examination program was developed, which encompassed on-site reviews of mortgage brokers' operations for compliance with the Act. During the year, staff visited seven mortgage broker operations and worked with those brokers to resolve problems that had been encountered.

Registrar of Mortgage Brokers staff continued to work with the Mortgage Brokers Association of British Columbia (MBABC), a trade organization, and contributed regularly to MBABC's newsletter. Throughout the year, they held several meetings to discuss issues of mutual concern.

Mortgage fraud—such as the misrepresentation of a borrower's qualifications—remained a serious issue last year. Therefore, staff held seminars on the topic for industry groups and members of the public to raise awareness of the risks and to teach prevention strategies.

Beginning in January 2006, the University of British Columbia offered a new licensing course for mortgage brokers. The new course was designed with input from the Registrar of Mortgage Brokers and other industry members. The Registrar of Mortgage Brokers will accept this course as meeting the education requirements for registration under the *Mortgage Brokers Act*.

The service plan set the nature of complaints received by staff of the Registrar of Mortgage Brokers as a performance measure for this goal. The fiscal year 2005/06 brought no change in the nature of complaints. While the majority were of a minor nature, last year still saw several complaints about serious mortgage fraud.

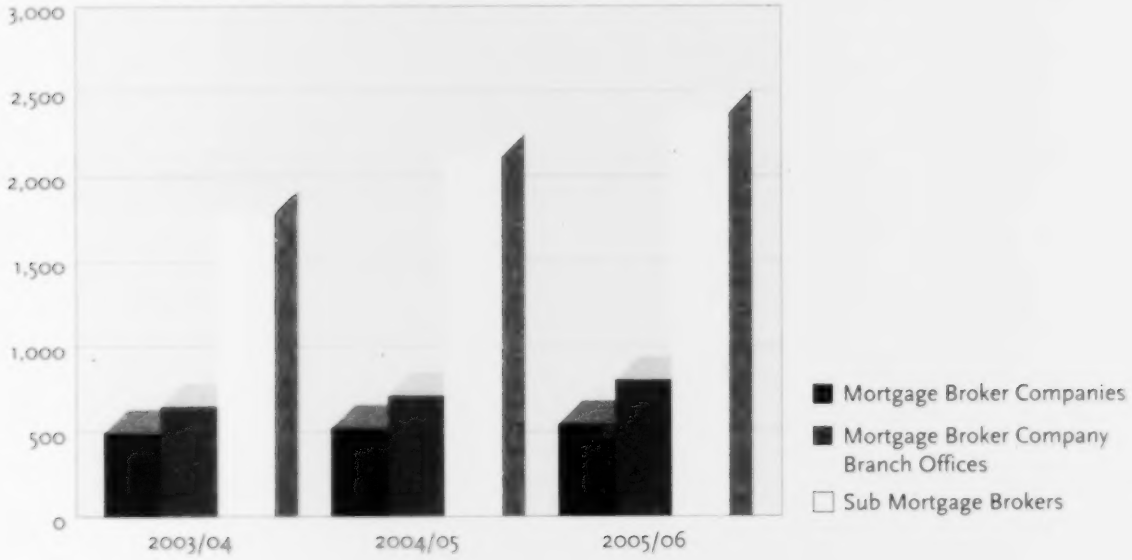
Despite an increase in the volume of work, applications were processed in a timely manner; turnaround times averaged 18 days for mortgage brokers and 14 for sub mortgage brokers. However, those averages include forms that required follow-up; correctly completed applications were usually handled in much less time.

MORTGAGE BROKER REGULATION

Registered Mortgage Brokers	2003/04	2004/05	2005/06
Mortgage Broker Companies	494	520	543
Mortgage Broker Company Branch Offices	645	707	799
Sub Mortgage Brokers	1,775	2,107	2,366
Mortgage Broker Regulation	**2003/04**	**2004/05**	**2005/06**
New Mortgage Broker Registrations	91	133	68
New Sub Mortgage Broker Registrations	488	541	669
Mortgage Broker Renewals	284	317	247
Sub Mortgage Broker Renewals	519	645	737
Transfers	168	312	384
Mortgage Broker and Sub Mortgage Broker Terminations	288	305	404
Mortgage Broker and Sub Mortgage Broker Amendments	252	486	522
Information Requests	**2003/04**	**2004/05**	**2005/06**
Letters (All Correspondence, Real Estate and Mortgage Brokers)	4,315	12,236	9,854
Telephone Calls (All Calls, Real Estate and Mortgage Brokers)	10,493	9,095	12,038

MORTGAGE BROKERS (CONT'D)

MORTGAGE BROKERS IN BRITISH COLUMBIA



GOAL #5

British Columbians have confidence in the regulation of multi-unit real estate development marketing and the approval process for strata plans.

Through its administration of the *Real Estate Development Marketing Act*, the office of the Superintendent of Real Estate boosts public confidence in the marketing of developments and the handling of deposits. Developers must file disclosure statements with the office of the Superintendent of Real Estate for developments ranging from urban condominium projects to holiday resorts. A developer's disclosure statement must contain key information, such as

- Development approvals;
- Details of construction financing;
- A lawyer's certification confirming the ownership and encumbrances of the development land; and
- Key statutory protections for a purchaser, such as the seven day rescission right and the requirement that all deposits be held in trust.

If a disclosure statement filed with the office of the Superintendent of Real Estate does not meet the form and content requirements, steps are taken to prevent marketing from taking place until adequate disclosure is made.

The Superintendent of Real Estate approves certain forms and strata plans under the *Strata Property Act*. Staff also receive rental disclosure statements under the Act for filing.

Under the *Real Estate Services Act*, the Real Estate Council of British Columbia regulates all licensed real estate professionals in this province. However, staff of the Superintendent investigate unlicensed activity to ensure that the public is served only by those holding the appropriate real estate license. As well, the Superintendent of Real Estate may intervene in the regulation of a real estate professional if an urgent concern for the public interest arises.

In the past year, FICOM staff responded to more than 5,000 inquiries from developers, real estate professionals, and purchasers regarding the disclosure requirements for developers and the licensing requirements for real estate professionals.

The organization received 741 disclosure statements and 697 disclosure statement amendments for filing under Part 2 of the *Real Estate Act* and its replacement statute, the *Real Estate Development Marketing Act*. Additionally, FICOM staff received 481 rental disclosure statements and approved 278 strata plan forms under the *Strata Property Act*.

(cont'd)

GOAL #5 (CONT'D)

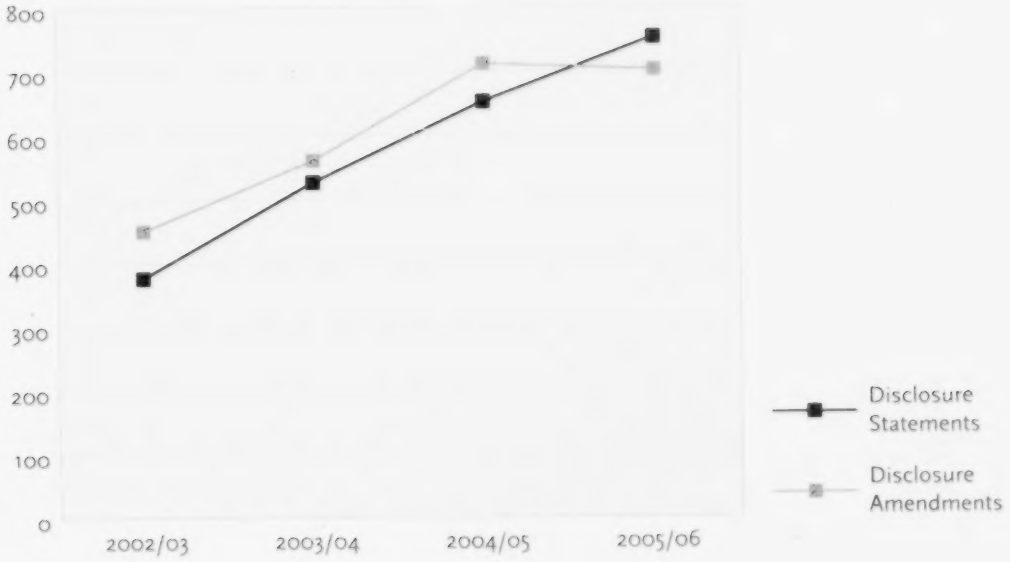
As set out in FICOM's service plan, staff used a risk-based approach when reviewing disclosure statements. They reviewed documents filed at the Land Title Office to determine if developers of subdivided land were complying with requirements to file. They also cross-referenced the information filed for new developments with past information filed by the same developer to look for inconsistencies. One developer, who failed to adequately reveal access to water in his disclosure statement filed under the *Real Estate Act*, pled guilty on June 24, 2005, and subsequently was fined.

The Superintendent of Real Estate continues to work well with the Real Estate Council of British Columbia. As an example of this relationship, both organizations worked closely together to implement a new licensing requirement for strata managers, which came into effect on January 1, 2006.

The Superintendent of Real Estate collaborates, as well, with the British Columbia Securities Commission in areas that fall under the jurisdiction of both organizations.

Despite high volumes, staff continue to process disclosure statements in an expeditious manner. Turnaround times for disclosure statements during the year averaged 11 days, while forms filed under the *Strata Property Act* averaged just 2 days.

DISCLOSURE STATEMENTS AND AMENDMENTS RECEIVED BY THE OFFICE OF THE SUPERINTENDENT OF REAL ESTATE



REAL ESTATE AND MORTGAGE BROKER REGULATION

Real Estate Services	2002/03	2003/04	2004/05	2005/06
Prospectuses Accepted	17	19	23	0
Disclosure Statements	378	524	655	741
Disclosure Amendments	440	561	714	697
Exemptions	10	11	10	8
Prospectus Amendments	29	20	23	–
Strata Property Services	**2002/03**	**2003/04**	**2004/05**	**2005/06**
Strata Plan Forms	165	270	314	278
Rental Disclosure Statements	–	–	476	481
Information Requests	**2002/03**	**2003/04**	**2004/05**	**2005/06**
Letters (All Correspondence, Real Estate and Mortgage Brokers)	3,353	4,315	12,236	9,854
Telephone Calls (All Calls, Real Estate and Mortgage Brokers)	10,160	10,493	9,095	12,038

GOAL #6

The investigative activities of FICOM deter non-compliance with statutes related to financial services in British Columbia.

FICOM staff engage in a number of investigative activities in their efforts to deter non-compliance with the Commission's statutes. As well, they respond to inquiries and complaints from members of the public, government agencies, industry members, and other law enforcement agencies.

Staff of FICOM help maintain public confidence in financial services by raising awareness of undesirable business practices. They provide information to the public on scams or other inappropriate business practices, especially information regarding mortgage and real estate fraud. FICOM employees also provide information to financial institutions on fraud schemes that may have a systemic impact.

Last year, 15 full-time staff explored statutory breaches of the statutes administered by FICOM, as well as related criminal issues and other functions. They completed 238 investigations and initiated 210 new ones. One hundred and two investigations were open on March 31, 2006. Staff also executed 5 search warrants and 16 production orders during the year.

The Commission streamlined its complaint and inquiry response by creating a new Contact Center in December 2005. This is an improvement over previous practices because each inquiry and complaint is entered into a database and archived with past investigations, thereby increasing the amount of information available.

Last year's service plan required that the Investigations Department review complaints to determine and then respond to trends. Such steps have been taken: FICOM staff met with industry groups in the mortgage, real estate, and financial institution industries and educated them about problems staff were seeing.

One of the unlawful activities dealt with by the Financial Institutions Commission in fiscal 2005/06 was BUX Cash Card Inc. (BCCI). This company, which conducted business in Kelowna, BC, as First Cash Card (FCC), accepted third-party cheques or cash and issued debit cards to the public. The Commission's investigation began after the RCMP referred to FICOM a complaint from an elderly woman in Beverly Hills, California who had remitted $12,200 as part of a phone fraud scheme. Staff investigation led to the Superintendent of Financial Institutions issuing a cease-and-desist order against BCCI, FCC, and North York Credit Community Credit Union.

INVESTIGATIONS

Activity	2003/04	2004/05	2005/06
Files Open at the Beginning of the Fiscal Year	139	108	102
New Files Opened in the Year With Investigations Initiated	224	213	210
Real Estate Investigations—Initiated	78	65	74
Insurance Investigations—Initiated	40	33	27
Mortgage Broker Investigations—Initiated	86	95	74
Credit Union Investigations—Initiated	9	7	22
Trust Company Investigations—Initiated	1	1	6
Pensions Investigations—Initiated	1	7	4
Miscellaneous Investigations—Initiated	9	5	3
Files Closed	255	222	238
Real Estate Investigations—Concluded	86	75	72
Insurance Investigations—Concluded	50	39	37
Mortgage Broker Investigations—Concluded	102	85	91
Credit Union Investigations—Concluded	9	11	16
Trust Company Investigations—Concluded	1	1	5
Pensions Investigations—Concluded	0	3	7
Miscellaneous Investigations—Concluded	7	8	3
Files Open at the End of the Fiscal Year	108	100	72
Search Warrants Executed	13	33	21*
Financial Institutions Act Related Orders Executed	14	19	26
Pensions Benefits Standards Act Related Orders Executed	1	0	0
Mortgage Brokers Act Related Orders Executed	50	39	52
Real Estate Services Act Related Orders Executed	7	19	4

** Of the 21 orders, 5 were search orders, and 16 were production orders.*

GOAL #7

FICOM is administratively effective and efficient.

The Financial Institutions Commission is a self-funded organization with fees and assessments on regulated industries providing revenue for its operations. It is committed to operating effectively and efficiently.

Last year, FICOM undertook a number of initiatives to enhance its administrative capability. One such step was to begin development of the Pensions Information Management System. The new design allows for an enriched collection of data and a dynamic reporting package. That information will now fall in line with revised Statistics Canada requirements and will position the database for future scalability.

FICOM staff continued to develop the insurance filing system database. When completed in 2006/07, it will simplify the collection of comprehensive financial data and provide a stable platform for further electronic enhancements shortly thereafter.

The Contact Center became operational in December 2005 and continues to grow in its role as information provider for all general inquiries and complaints. Evaluations and comparisons to Enquiry BC and other contact centres were made to ensure that routinely provided information is made available to the public in the most efficient and effective manner.

FICOM personnel revised the inquiry and complaint tracking database (known as ENTRAK) to enable greater effectiveness and use throughout all departments of FICOM, including the Contact Center. ENTRAK's reporting capabilities provide statistics on a multi-level platform that allows detailed analysis of all inquiry and complaint records.

Conversion of FICOM's existing records and files to a new classification scheme will be complete by August 2006. This restructuring will enable a number of future options, such as electronic data storage, to be undertaken in the coming years.

In the fiscal year 2005/06, FICOM staff responded to 38 requests for information under the *Freedom of Information and Protection of Privacy Act*—all within the time frames mandated by legislation. Such requests require the balancing of the privacy rights of individuals and corporations that have provided information to FICOM with the public's right to access information. In *Re Man Fai Mok*, the Office of the Information and Privacy Commissioner held that information supplied by an institution to FICOM in a complaint inquiry must be disclosed. FICOM staff have since adjusted their procedures for acquiring and disclosing information concerning complaints.

Although not specifically required by the *Budget Transparency and Accountability Act*, the Commission produces an annual service plan, which delineates strategic goals and performance measures for the coming fiscal year. Last year's plan outlined a risk management program for FICOM.

The organization also published an annual report indicating how these strategic goals were met and how performance was measured. Efforts were made to guarantee that the service plan and the annual plan continued to meet the standards of the BC public service.

Both of these documents make FICOM's operations transparent and accountable to its stakeholders and were published within the time frame suggested by the *Budget Transparency and Accountability Act*.

Another way in which FICOM provides information to the public and industry counterparts is through its website, www.fic.gov.bc.ca, where a wide variety of forms, bulletins, and information are available. In fact, the Contact Center used the website last year as a main source of information for the public and industry stakeholders. FICOM staff review it regularly to confirm that accurate, up-to-the-minute information is available at all times.

FICOM's Financial Report

FICOM expenditures are fully recovered from fees and assessments.

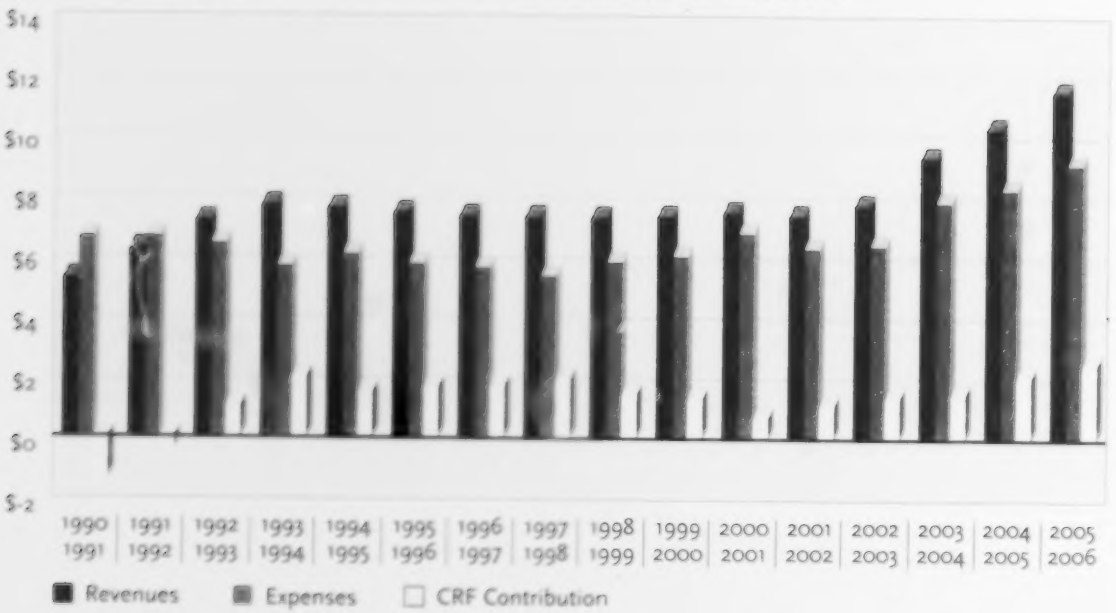
Funding for the Commission is provided in the provincial government main estimates (the Budget) for the Ministry of Finance—a nominal net expense of $1,000 is authorized. This funding mechanism requires that FICOM's expenditures be recovered from fees and assessments.

In 2005/06, FICOM's gross actual expenditures were $9,111,170, which was $1,824,830 under budget. Approximately 75% of the expenditures were for staff and professional services.

Actual recoveries were $11,547,600 in 2005/06. These were comprised of transfers from CUDIC for expenditures incurred by FICOM for credit union deposit insurance, supervision and stabilization issues ($1,962,264), and annual licensing fees and assessments ($9,494,322). FICOM also received $91,014 in other expenditure recoveries.

In total, FICOM transferred $2,436,431 to the Consolidated Revenue Fund (CRF) during 2005/06. These monies offset government overheads that were not fully accounted for in FICOM's budget. This transfer is identified as the CRF contribution on the following chart.

FICOM—16-YEAR FINANCIAL SUMMARY ($ MILLIONS—ACTUALS)



REPORT ON THE CREDIT UNION DEPOSIT INSURANCE CORPORATION

Credit Union Deposit Insurance
Corporation of British Columbia

CUDIC's Board of Directors

Chair	J. Stewart Cunningham
Directors	Tamara Vrooman (*ex officio*)
	John Dawson
	Vickie McDonnell
	Janet Pau
Officer	W. Alan Clark

CUDIC's Role and Responsibilities

The Credit Union Deposit Insurance Corporation (CUDIC), is a statutory corporation under the *Financial Institutions Act*. CUDIC's mandate is to guarantee deposits and non-equity shares of depositors of British Columbia credit unions up to limits prescribed by the *Financial Institutions Act*. As it consists of only a CEO and no other employees, most of CUDIC's activities are conducted by FICOM staff.

CUDIC maintains a deposit insurance fund in support of such insurance. As of March 31, 2006, this fund was valued at $213,713,004.

Details regarding deposit insurance coverage can be obtained by contacting FICOM or by visiting www.fic.gov.bc.ca.

CUDIC's Activities

In 2005, CUDIC's Board of Directors examined whether a new auditor was appropriate to provide a fresh review of its accounting procedures. CUDIC issued a formal Request for Proposals on September 15, 2005 for the provision of audit services and received a number of qualified responses. After reviewing them, CUDIC's Audit Committee recommended the appointment of PriceWaterhouseCoopers LLP as the new auditors. The full CUDIC Board approved the recommendation and made the appointment.

CUDIC and Stabilization Central Credit Union (SCCU) reached an agreement during that same year regarding an increase in the size of the deposit insurance fund of $83.1 million. That increased the size of the fund to approximately $211.6 million in Dec. 31, 2005 and $213.7 million on March 31, 2006.

CUDIC retained approximately $30 million. SCCU also provided CUDIC with a letter of credit for $20 million, which may be called upon to support its deposit insurance obligations should the need arise.

Last year also saw the full implementation of CUDIC's investment policy. Drafted with the help of professional investment consultants, this document balances CUDIC's need to ensure the integrity of the fund while earning appropriate returns.

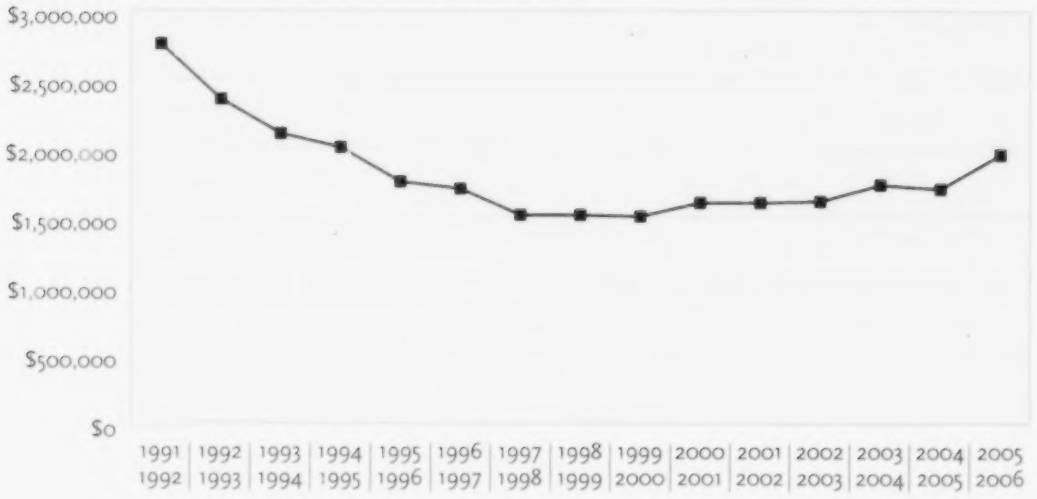
The CUDIC Board also began the process to engage an investment consultant to assist in managing the funds at its disposal and to help the Board find investment managers and evaluate their performance. This person will also help to resolve miscellaneous issues that arise in regard to the fund. CUDIC expected to finalize the appointment of a consultant within the coming year.

CUDIC is in the process of reviewing and updating the Credit Union Deposit Insurance Corporation brochure, entitled *Your Guide to BC Credit Union Deposit Insurance*, which will be published and available soon on www.fic.gov.bc.ca.

CUDIC's Financial Administration

FICOM provides CUDIC's day-to-day administrative functions—as CUDIC has no operating staff—and charges the Corporation for administrative services. CUDIC records those services as administration expenses and reports them in the Schedule of Administration Expenses in financial statements. These expenses have been tightly controlled since 1990, as the following chart highlights.

CUDIC'S ADMINISTRATION EXPENSES



NOTES

Credit Union Deposit Insurance Corporation of British Columbia

Financial Statements
March 31, 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
PricewaterhouseCoopers Place
250 Howe Street, Suite 700
Vancouver, British Columbia
Canada V6C 3S7
Telephone +1 604 806 7000
Facsimile +1 604 806 7806

September 12, 2006

Auditors' Report

To the Board of Directors of
Credit Union Deposit Insurance Corporation of British Columbia

We have audited the balance sheet of **Credit Union Deposit Insurance Corporation of British Columbia** as at March 31, 2006 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at March 31, 2005 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated June 3, 2005.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Credit Union Deposit Insurance Corporation of British Columbia

Balance Sheet

As at March 31, 2006

	2006 $	2005 $
Assets		
Cash	7,530	2,067
Income taxes recoverable	-	48,042
Capital assets	15,455	15,455
Investments - at cost (note 3)	213,713,004	122,930,944
	213,735,989	122,996,508
Liabilities and Retained Earnings		
Trade settlements payable	148,994	-
Accounts payable and accrued liabilities	137,858	125,950
Due to FICOM (note 6)	430,546	285,284
Income taxes payable	131,754	-
	849,152	411,234
Retained earnings (note 1)	212,886,837	122,585,274
	213,735,989	122,996,508

Approved by the Board of Directors

W. John Dawson

_____ Director

_____ Director

Credit Union Deposit Insurance Corporation of British Columbia

Statement of Earnings and Retained Earnings

For the year ended March 31, 2006

	2006 $	2005 $
Revenue		
Investments		
Interest and dividends	6,814,026	6,901,044
Gain on sale of investments	3,214,831	1,422,299
Assessments (note 5)	83,131,609	-
	93,160,466	8,323,343
Expenses		
Administration (note 6) (schedule)	2,023,302	1,758,488
Investment management fees	98,425	111,243
	2,121,727	1,869,731
Earnings before income taxes	91,038,739	6,453,612
Provision for income taxes (note 4)	737,176	645,077
Net earnings for the year	90,301,563	5,808,535
Retained earnings - Beginning of year	122,585,274	116,776,739
Retained earnings - End of year	212,886,837	122,585,274

Credit Union Deposit Insurance Corporation of British Columbia

Statement of Cash Flows

For the year ended March 31, 2006

	2006 $	2005 $
Cash flows from operating activities		
Net earnings for the year	90,301,563	5,808,535
Items not affecting cash		
Gain on sale of investments	(3,214,831)	(1,422,299)
Amortization of discount (premium) on purchase of fixed income investments	647,525	(183,063)
	87,734,257	4,203,173
Changes in non-cash working capital items		
Trade settlements payable	148,994	-
Accounts payable and accrued liabilities	11,908	(67,922)
Due to FICOM	145,262	3,300
Income taxes payable (recoverable)	179,796	(48,042)
	88,220,217	4,090,509
Cash flows from investing activities		
Purchase of investments	(252,013,190)	(121,875,937)
Proceeds from sale of investments	163,798,436	117,736,390
	(88,214,754)	(4,139,547)
Increase (decrease) in cash	5,463	(49,038)
Cash - Beginning of year	2,067	51,105
Cash - End of year	7,530	2,067
Supplemental cash flow information		
Income taxes paid	557,380	686,487

Credit Union Deposit Insurance Corporation of British Columbia

Notes to Financial Statements

March 31, 2006

1 Governing legislation and operations

The Credit Union Deposit Insurance Corporation of British Columbia (CUDIC) is a statutory corporation established under the *Financial Institutions Act* (FIA) and administered by the Financial Institutions Commission (FICOM) of the Ministry of Finance of the Province of British Columbia. The mandate of CUDIC is to guarantee deposits and non-equity shares of depositors of British Columbia credit unions up to the limits prescribed by the FIA. To meet this mandate, CUDIC undertakes functions set out in the FIA and maintains the deposit insurance fund. CUDIC may assess credit unions and/or issue debentures to them to support the deposit insurance fund.

The amount, timing and form of deposit insurance payments or financial assistance that may be required for credit unions is dependent on future events and outcomes. Outcomes that may require assistance are rehabilitation, amalgamation or liquidation of credit unions.

2 Summary of significant accounting policies

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Investments

During the year, CUDIC adopted a new investment policy that permits investment in both fixed income securities and equities. Investment assets are either managed on a segregated basis or held in pooled funds.

Segregated fixed income securities are reported at their amortized cost. Premiums and discounts arising at the time of purchase of investments are amortized over the period to maturity. Pooled fund investments are reported at cost, whereby the carrying value is reduced for any impairment in value considered other than temporary.

Investment income

Income from investments is recorded on an accrual basis and dividends from the pooled fund investments are recognized on the ex-dividend date. Gains and losses from investment transactions are calculated on an average cost basis and recorded when realized.

Capital assets

During the prior year, CUDIC's collection of fine art was independently valued and capitalized at that value. There is no amortization in respect of these assets.

Assessments

CUDIC has established a target fund size in relation to the total of British Columbia credit union system deposits, based upon actuarial advice and an assessment of deposit failure risk (note 5). Assessments are recognized as revenue when due.

Provision for credit union assistance

CUDIC may provide assistance to credit unions in respect of deposit insurance. Specific provisions are established for financial assistance provided to a credit union and deposit insurance claims for a credit union in financial difficulty. These provisions are recorded when it is determined that assistance is likely required and the amount can be reasonably estimated. No payments or accruals were made in relation to credit union assistance in the current or prior year.

Financial instruments

The fair values of financial instruments other than investments, which include cash, income taxes recoverable and payable, trade settlements payable, accounts payable and accrued liabilities, and amounts due to FICOM, approximate their carrying values due to their short-term nature.

Investments are exposed to credit risk and price risk. Price risk comprises currency risk, interest rate risk and market risk.

Credit risk

Credit risk relates to the possibility that a loss may occur from the failure of another party to the terms of a contract. The investment policy established by CUDIC limits credit risk by limiting the maximum exposure to one single issuer and by investing only in securities from counterparties with a minimum rating of at least "BBB" as defined by Moody's, Standard & Poors or Dominion Bond Rating Service.

Currency risk

Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. The total amount of investments exposed to currency risk amounts to $28.3 million (investment in U.S. equity funds and international equity funds).

Interest rate risk

Interest rate risk relates to the possibility that fixed income investments will change in value due to future fluctuations in market interest rates. As fixed income investments are carried at amortized cost, the carrying value of investments has limited exposure to interest rate risk.

Market risk

Market risk relates to the possibility that the equity investments will change in value due to future fluctuations in market prices. As the equity investments are held at cost, those investments are exposed to market risk to the extent that a decrease in market value is not considered temporary.

Income taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets, when applicable, are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Actual results may differ from those estimates.

3 Investments

	Effective yields %	Less than one year $	1 to 5 years $	Over 5 years $	Total cost 2006 $	Total cost 2005 $
Bonds - direct						
Canadian	4.2	4,738,303	31,602,383	38,783,721	75,124,407	34,375,333
Provincial	4.5	1,000,507	8,980,534	26,011,865	35,992,906	24,368,199
Municipal	4.5	-	1,336,866	5,335,178	6,672,044	3,769,274
Corporate	3.1	-	-	342,144	342,144	1,536,218
		5,738,810	41,919,783	70,472,908	118,131,501	64,049,024
Pooled funds						
Money market					138,150	2,450,294
Government bond					5,349,755	16,789,005
Corporate bond					44,769,755	38,530,530
Canadian equity					15,287,558	-
U.S. equity					14,118,733	-
International equity					14,195,795	-
					93,859,746	57,769,829
Accrued interest					1,721,757	1,112,091
Total investments - cost					213,713,004	122,930,944
Total investments - fair value					217,901,431	127,368,850

4 Income taxes

Under the *Income Tax Act*, CUDIC pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Income for tax purposes excludes assessments made against credit unions. Also, no deduction may be made against income for tax purposes for financial assistance given to or paid on behalf of credit unions.

	2006 $	2005 $
Income taxes otherwise payable based on reported net earnings	9,012,096	644,070
Adjustments for effect of:		
Assessments	(8,296,535)	-
Miscellaneous differences	21,615	1,007
Income tax expense	737,176	645,077

5 Depositor protection

CUDIC has established a target fund size of 84 basis points of total British Columbia credit union system deposits, based upon actuarial advice and an assessment of deposit failure risk.

During the year, CUDIC assessed British Columbia credit unions to augment the fund. This assessment totalled $83.1 million.

At March 31, 2006, CUDIC had total investment assets that represent 65.9 basis points of December 31, 2005 credit union deposits. Combined with a letter of credit of $20 million issued by Credit Union Central of British Columbia (refer to note 7), these amounts represent approximately 72 basis points of credit union deposits as at December 31, 2005. On July 31, 2006, a further assessment of 5 basis points of total credit union deposits was made. Further assessments to augment the fund are anticipated.

6 Related party transactions

As CUDIC is administered by FICOM, FICOM's administrative expenses relating to CUDIC's mandate are charged back to CUDIC. The allocation of a percentage of salaries to CUDIC is calculated based on the activities performed by FICOM staff on tasks pertinent to the mandate of CUDIC. Other expenses, including occupancy costs, are allocated to CUDIC according to CUDIC's proportionate share of activities. These transactions are conducted in the normal course of business at amounts established and agreed to by both parties.

In the current year, total expenses charged to CUDIC by FICOM amounted to $1,982,502 (2005 - $1,679,538). The balance remaining payable to FICOM at March 31, 2006 was $430,546 (2005 - $285,284).

7 Credit facilities

CUDIC has available a $250,000 unsecured line of credit for operating purposes with Credit Union Central of British Columbia, which bears interest at the prime rate.

In addition, CUDIC is the beneficiary of an irrevocable and unrestricted letter of credit for $20 million issued by Credit Union Central of British Columbia on behalf of Stabilization Central Credit Union. One letter of credit expiring June 13, 2006 was in place at fiscal year-end. A letter of credit expiring June 13, 2007 replaced that agreement on June 13, 2006.

8 Comparative figures

Certain prior year figures have been reclassified to conform with the current year's presentation.

Credit Union Deposit Insurance Corporation of British Columbia

Schedule of Administration Expenses

For the year ended March 31, 2006

	2006 $	2005 $
Salaries and benefits	1,349,014	1,190,103
Building occupancy	203,409	120,930
Professional services	174,101	128,902
Other	93,002	161,659
Furniture and equipment	78,473	56,657
Information services	68,470	64,619
Travel	34,035	29,985
Directors' expenses	22,798	5,633
	2,023,302	1,758,488

Contact Information

MARKET CONDUCT COMPLAINTS AND INQUIRIES

FOR GENERAL QUERIES RELATED TO THE FINANCIAL SERVICES SECTOR:

FINANCIAL INSTITUTIONS COMMISSION

Website www.fic.gov.bc.ca

Contact Center 604 953-5200

Email Inquiries FICOM@ficombc.ca

Mailing Address
Suite 1200 – 13450 102nd Avenue
Surrey, British Columbia V3T 5X3

INQUIRIES AND COMPLAINTS REGARDING A LICENSED REAL ESTATE AGENT, SALESPERSON OR PROPERTY MANAGER:

REAL ESTATE COUNCIL OF BRITISH COLUMBIA

Website www.recbc.ca

Telephone 604 683-9664

Toll Free in BC 1 877 683-9664

Fax 604 683-9017

Mailing Address
Suite 900 – 750 West Pender Street
Vancouver, British Columbia V6C 2T8

INQUIRIES AND COMPLAINTS REGARDING A LICENSED INSURANCE AGENT, ADJUSTER OR SALESPERSON:

INSURANCE COUNCIL OF BRITISH COLUMBIA

Website www.insurancecouncilofbc.com

Telephone 604 688-0321

Toll Free in BC 1 877 688-0321

Fax 604 662-7767

Mailing Address
Suite 300 – 1040 West Georgia Street
PO Box 7
Vancouver, British Columbia V6E 4H1

Contact Information (cont'd)

INQUIRIES AND COMPLAINTS REGARDING CHARTERED BANKS:

OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS (CANADA)

Website www.osfi-bsif.gc.ca

Telephone 604 666-5335

Fax 604 666-6717

Mailing Address
Suite 305 – 1095 West Pender Street
PO Box 11
Vancouver, British Columbia V6E 2M6

INQUIRIES AND COMPLAINTS REGARDING THE SECURITIES INDUSTRY:

BRITISH COLUMBIA SECURITIES COMMISSION

Website www.bcsc.bc.ca

Telephone 604 899-6500

Toll Free in BC 1 800 373-6393

Fax 604 899-6506

E-mail inquiries@bcsc.bc.ca

Mailing Address
PO Box 10142
Pacific Centre
701 West Georgia Street
Vancouver, British Columbia V7Y 1L2

Contact Information (cont'd)

DEPOSIT INSURANCE AND COMPENSATION PLANS

QUESTIONS ABOUT DEPOSIT INSURANCE FOR BANKS AND TRUST COMPANIES IN BRITISH COLUMBIA:

CANADA DEPOSIT INSURANCE CORPORATION

Website www.cdic.ca

Telephone 613 992-7124

Toll Free 1 800 461-2342

Fax 613 996-6095

E-mail info@cdic.ca

Mailing Address
17th Floor – 50 O'Connor Street
PO Box 2340, Station "D"
Ottawa, Ontario K1P 5W5

QUESTIONS ABOUT DEPOSIT INSURANCE FOR CREDIT UNIONS IN BRITISH COLUMBIA:

CREDIT UNION DEPOSIT INSURANCE CORPORATION OF BRITISH COLUMBIA

Website www.fic.gov.bc.ca

Telephone (Inquiries) 604 953-5200

Fax 604 953-5301

Mailing Address
Suite 1200 – 13450 102nd Avenue
Surrey, British Columbia V3T 5X3

Contact Information (cont'd)

MOST PROPERTY AND CASUALTY INSURANCE COMPANIES IN CANADA ARE REQUIRED TO BE MEMBERS OF THE INDUSTRY INSURANCE COMPENSATION PROGRAM FOR INSOLVENCIES.

PROPERTY AND CASUALTY INSURANCE COMPENSATION CORPORATION

Website www.pacicc.ca

Telephone (Inquiries) 416 364-8677

Toll Free 1 888 564-9199

Fax 416 364-5889

E-mail info@pacicc.ca

Mailing Address
Suite 210 – 20 Richmond Street East
Toronto, Ontario M5C 2R9

MOST BRITISH COLUMBIA INSURERS THAT SELL LIFE, ACCIDENT AND SICKNESS INSURANCE TO THE PUBLIC MUST BE MEMBERS OF:

CANADIAN LIFE AND HEALTH INSURANCE COMPENSATION CORPORATION

Website www.assuris.ca

Telephone (Inquiries) 416 777-2344

Toll Free 1 800 268-8099

Fax 416 955-9688

E-mail info@assuris.ca

Mailing Address
Suite 1600 – 1 Queen Street East
Toronto, Ontario M5C 2X9

Contact Information (cont'd)

FINANCIAL INSTITUTIONS COMMISSION

INCLUDING

- The Superintendent of Financial Institutions
- The Superintendent of Pensions
- The Superintendent of Real Estate
- Registrar of Mortgage Brokers
- Credit Union Deposit Insurance Corporation

Mailing Address
Suite 1200 – 13450 102nd Avenue
Surrey, British Columbia V3T 5X3

Telephone 604 953-5300

Fax 604 953-5301

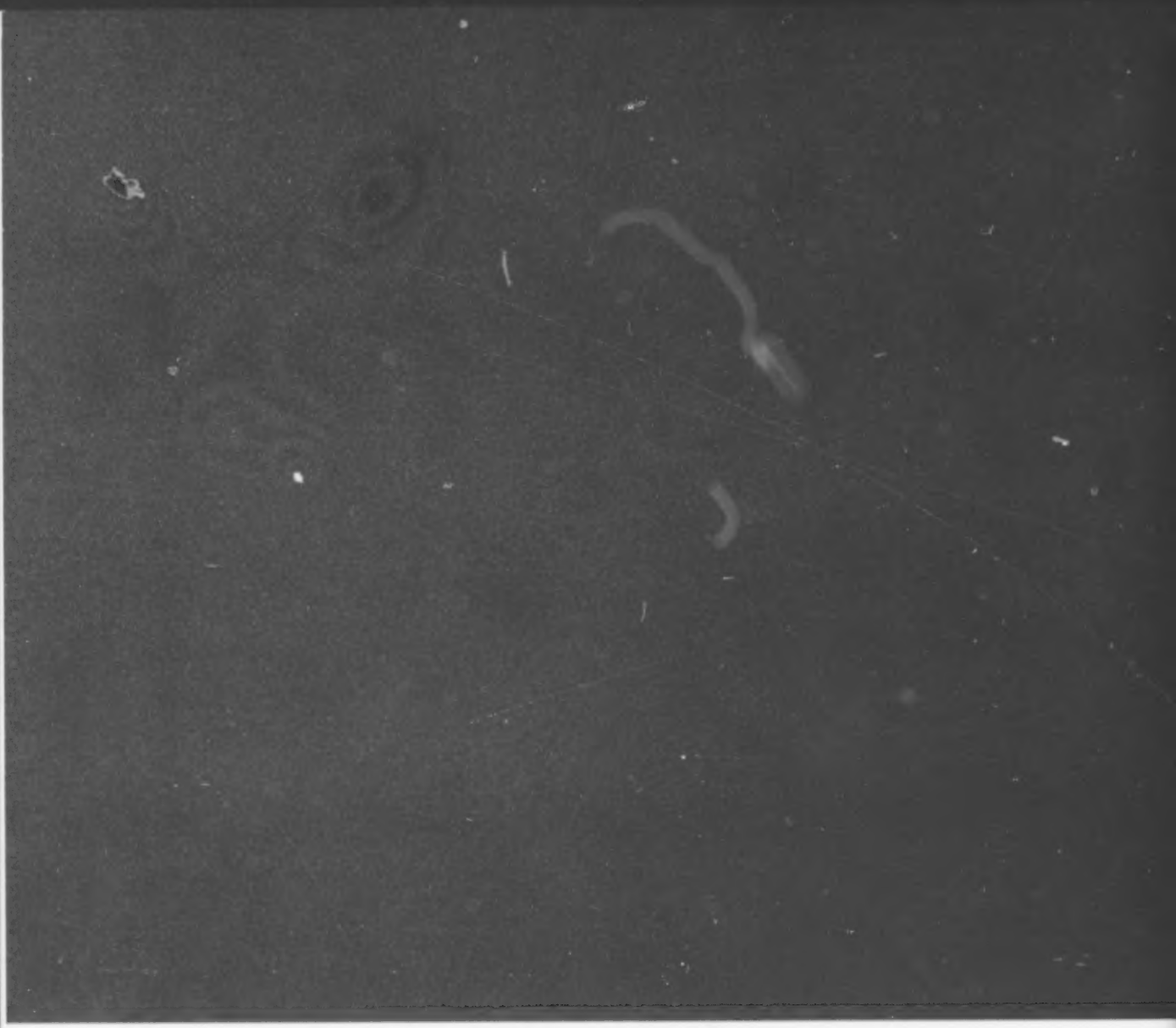
E-mail FICOM@ficombc.ca

Website www.fic.gov.bc.ca

FINANCIAL SERVICES TRIBUNAL

FICOM houses the Financial Services Tribunal (FST). Created to partially replace the Commercial Appeals Commission, the FST hears appeals from individuals and institutions who want to contest enforcement decisions made by the Insurance Council of British Columbia, Real Estate Council of British Columbia, Superintendent of Real Estate, Superintendent of Pensions, Registrar of Mortgage Brokers and Superintendent of Financial Institutions.

For further information, please contact the Deputy Registrar at 604 953-5300 or visit the website at www.fic.gov.bc.ca/fst.



VISIT OUR WEBSITE AT WWW.FIC.GOV.BC.CA